

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2542 - SB 2454

February 9, 2016

SUMMARY OF BILL: Exempts wholesalers of qualifying items whose total gross sales of all items in the previous tax year were less than \$1,000,000 from the reporting requirements under the Retail Accountability Program.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$1,252,300

Decrease Local Revenue – \$556,300

Assumptions:

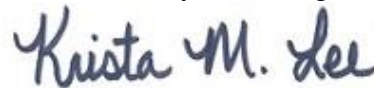
- An effective date of July 1, 2016.
- Under the Retail Accountability Program, pursuant to Tenn. Code Ann. § 67-6-410, the Department of Revenue is authorized to require persons making sales to retailers of beer, or tobacco products file an information report of such sales.
- Pursuant to Public Chapter 342 of the Public Acts of 2015, the reporting requirements under the Program were expanded to persons making sales to retailers of other categories or types of tangible personal property, as may be designated from time to time by the Department, in addition to beer and tobacco.
- According to the Department's rules of the Program, as published on the Department's website, beer and tobacco wholesalers that also sell food and beverages are required to include those sales in their report to the Department.
- In addition, non-beer and non-tobacco wholesalers are required to report food and beverage sales to the Department, if their total sales for resale are \$500,000 or more per year, and these items are sold to retailers that sell beer or tobacco products.
- The proposed legislation would exempt all wholesalers (beer, tobacco, non-beer, non-tobacco) from the reporting requirements, if their total gross sales of all items in the previous tax year were less than \$1,000,000.
- The expansion of the Program by the Public Chapter 342 of the Public Acts of 2015 was estimated to result in a recurring increase in sales tax revenue of \$2,754,203, of which \$1,907,030 was the state portion and \$847,173 was the local portion. That estimate was based in the absence of the \$500,000 total sales exemption.

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- It is estimated that, as a result of such exemption, the expansion under current rules will result in approximately 50 percent of the originally estimated impact, or an increase in total revenue of \$1,377,102 ($\$2,754,203 \times 50\%$).
- Exempting additional non-beer, non-tobacco wholesalers whose total sales are between \$500,000 and \$1,000,000 per year is estimated to result in a decrease in total sales tax revenue of approximately 25 percent, or \$344,275 ($\$1,377,102 \times 25\%$).
- Exempting beer or tobacco wholesalers whose total sales are under \$1,000,000 per year is estimated to result in a 10 percent decrease in total collections currently collected as a result of such wholesalers making the required reports.
- The average annual collections attributed to reports from such wholesalers are estimated to be \$6,697,175.
- The recurring decrease in total sales tax revenue is estimated to be \$669,718 ($\$6,697,175 \times 10\%$).
- According to the Department, the Program has increased voluntary compliance by retailers, resulting in annual total sales tax collections of \$15,893,640.
- It is estimated that such collections from voluntary compliance would decrease by approximately five percent as some retailers who are most likely to under-report their sales will purchase from wholesalers who would not be required to report their sales to the Department as a result of the proposed exemption.
- Total sales tax revenue is estimated to decrease by \$794,682 per year ($\$15,893,640 \times 5.0\%$) due to decreased voluntary compliance.
- The total recurring decrease in sales tax revenue as a result of this bill is estimated to be \$1,808,675 ($\$344,275 + \$669,718 + \$794,682$), of which \$1,252,339 is estimated to be the state portion and \$556,336 is estimated to be the local portion.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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